



Internet Initiative Japan

For Immediate Release

Internet Initiative Japan Inc.

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IIJ Announces First Quarter Results for the Year Ending March 31, 2006

- Highest revenues and profits for the first quarter, the weakest period in the fiscal year historically-

Tokyo and New York, August 12, 2005 - Internet Initiative Japan Inc. (Nasdaq: IIJI) ("IIJ"), one of Japan's leading Internet-access and comprehensive network solutions providers, today announced its financial results for the first quarter of the fiscal year ending March 31, 2006 ("FY2005").¹

Highlights of First Quarter FY2005 Results

- Revenue totaled JPY 9,880 million (\$89.1 million), an increase of 13.9% from 1Q04.
- Operating income was JPY 247 million (\$2.2 million), a substantial improvement from the operating loss of JPY 100 million in 1Q04.
- Net income was JPY 623 million (\$5.6 million), compared to a net loss of JPY 238 million in 1Q04.

Target for FY2005²

- We maintain the target for FY2005 that we announced on May 27, 2005.

Overview of 1st Quarter of FY2005 Financial Results and Business Outlook²

"An increase in demand from corporate customers for outsourced network operations and systems integration utilizing broadband technology continued to support our growth in 1Q05," said Koichi Suzuki, President and CEO of IIJ. "Despite the fact that our first quarter has historically been our weakest quarter due to seasonal fluctuations in Japanese corporate investment spending, we recorded a significant improvement compared to 1Q04. In particular, revenue increased by 13.9% compared to 1Q04, and profits improved substantially. It was the first time since our NASDAQ listing that we achieved positive operating and net income in the first quarter, which was primarily due to our continued focus on steadily increasing recurring monthly revenues from outsourced network operations."

Mr. Suzuki continued, "We planned to list our shares in Japan in June 2005 and we are disappointed that we could not complete it. We did not attract a sufficient number of new shareholders to meet the listing requirements of the Tokyo Stock Exchange, most likely due to adverse ADS price fluctuations on NASDAQ after the pricing day of the Japanese offering. However, we believe that this will not have a material effect on our financial condition. We will continue to make our future listing in Japan one of our highest priorities."

"We had a remarkable start to our 2005 fiscal year given that the first quarter is historically the weakest period due to seasonal fluctuation in Japan," said Akihisa Watai, CFO of IIJ. "We outperformed our

¹ Unless otherwise stated, all financial figures discussed in this announcement are prepared in accordance with U.S. GAAP. All financial figures are unaudited and consolidated. For all 1Q05 results, translations of Japanese yen amounts into US dollars are solely for the convenience of readers outside of Japan and have been made at the rate of JPY 110.91 = US\$1.00, the approximate exchange rate on June 30, 2005. 1Q04 figures have been restated to reflect the change in income tax expense (benefit) previously announced by IIJ in its press release dated April 11, 2005.

² This Overview and Business Outlook contains forward-looking statements and projections such as statements regarding FY2005 revenues and operating and net profitability that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by these statements. These risks and uncertainties include, but are not limited to, the factors noted at the end of this release and to the risk factors and other information included in IIJ's annual report on Form 20-F, filed with the SEC on August 3, 2005, as well as other filings and documents furnished to the Securities and Exchange Commission. IIJ plans to keep this press release publicly available on its Web site (www.ij.ad.jp), but may discontinue this practice at any time. IIJ intends to publish its next Overview and Business Outlook in its 2Q05 earnings release, presently scheduled for release in November 2005.

internal targets for 1Q05, in both revenues and profits, and maintain the target for FY2005 that we announced on May 27, 2005. We believe that the strengthening Japanese economy and favorable business trends will continue to bring us profits, with steady monthly revenues from outsourced network operations and higher-margin revenues from systems integration ("SI"), including network design, consulting and implementation."

1st Quarter FY2005 Financial Results

Operating Result Summary

(JPY in millions)

	1Q05	1Q04	YoY % change	4Q04	QoQ % Change
Total Revenues	9,880	8,675	13.9%	12,254	(19.4%)
Total Costs	8,118	7,443	9.1%	10,012	(18.9%)
SG&A Expenses and R&D	1,516	1,332	13.8%	1,586	(4.4%)
Operating Income	247	(100)	(345.5%)	656	(62.4%)
Net Income (Loss)	623	(238)	(361.5%)	2,256	(72.4%)

Revenues

Revenues in 1Q05 totaled JPY 9,880 million, an increase of 13.9% from JPY 8,675 million in 1Q04 and a decrease of 19.4% from JPY 12,254 million in 4Q04.

Revenues

(JPY in millions)

	1Q05	1Q04	YoY % change	4Q04	QoQ % change
Total Revenues	9,880	8,675	13.9%	12,254	(19.4%)
Connectivity & VAS	5,767	5,450	5.8%	5,860	(1.6%)
SI	3,840	2,695	42.5%	5,352	(28.2%)
Equipment Sales	273	530	(48.5%)	1,042	(73.8%)

Connectivity and Value-added Services ("VAS") revenues were JPY 5,767 million in 1Q05, an increase of 5.8 % from JPY 5,450 million in 1Q04 and a decrease of 1.6% from JPY 5,860 million in 4Q04.

Dedicated access service revenues were JPY 2,747 million in 1Q05, a decrease of 5.9% compared to 1Q04 and a decrease of 3.3% compared to 4Q04. The decrease was mainly due to cancellation of IP Service by certain large customers and the failure of an increase in revenues from broadband services to offset a decrease in revenues from T1 Standard or IJ Economy.

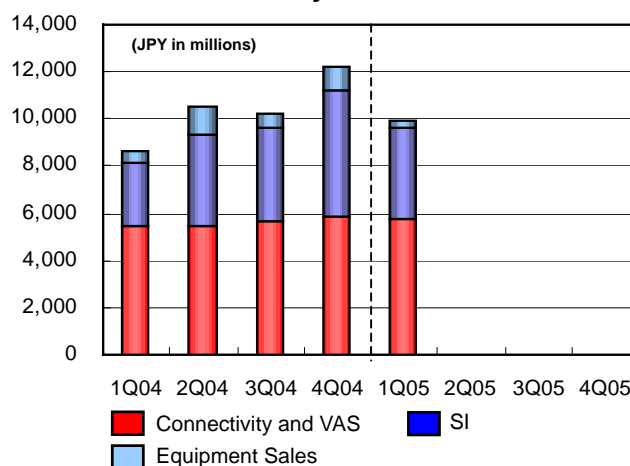
Dial-up access service revenues were JPY 699 million in 1Q05, a decrease of 7.1% compared to 1Q04 and a decrease of 2.7% compared to 4Q04. The decrease from 1Q04 is mainly due to the decrease in revenues from IJ4U. The decrease from 4Q04 is mainly due to the decrease in OEM service revenues.

VAS revenues were JPY 1,388 million in 1Q05, an increase of 16.9% compared to 1Q04 and an increase of 5.0% compared to 4Q04. The increase compared to 1Q04 and 4Q04 is mainly due to an increase in revenues from data center services and various types of packaged outsource services, such as e-mail and web hosting and network services such as managed router services.

Other revenues were JPY 933 million in 1Q05, an increase of 57.5% compared to 1Q04 and a decrease of 4.7% compared to 4Q04. The increase from 1Q04 is mainly due to an increase in revenues from Wide-area Ethernet Services.

SI revenues increased 42.5% to JPY 3,840 million in 1Q05 from JPY 2,695 million in 1Q04 and decreased 28.2% from JPY 5,352 million in 4Q04. The increase from 1Q04 is mainly due to additional revenues from the purchase of the security system business operations of Yamatane Co. Ltd. in October

Quarterly Total Revenues



2004 and solid growth of revenues from outsourced operations. The decrease from 4Q04 is mainly due to the decrease in systems development contracts, mainly due to a seasonal fluctuation.

Equipment sales revenues were JPY 273 million in 1Q05, a decrease of 48.5% compared to 1Q04 and a decrease of 73.8% compared to 4Q04.

Cost and expense

Cost of revenues was JPY 8,118 million in 1Q05, an increase of 9.1% compared to 1Q04 and a decrease of 18.9% compared to 4Q04.

Cost of Connectivity and VAS revenues

was JPY 4,964 million, an increase of 3.2% compared to 1Q04 and a decrease of 1.1% compared to 4Q04. The increase from 1Q04 is mainly due to an increase in personnel expenses and cost for local access lines for Wide-area Ethernet Services. The decrease from 4Q04 is mainly due to a decrease in depreciation and amortization. The gross-margin ratio for Connectivity and VAS in 1Q05 was 13.9%, compared to 11.7% in 1Q04 and 14.4% in 4Q04. The improvement from 1Q04 was mainly due to an increase in revenues from higher-margin VAS, and a decrease in backbone costs.

Cost of SI revenues was JPY 2,910 million in 1Q05, an increase of 34.9% compared to 1Q04 and a decrease of 27.8% compared to 4Q04. The gross margin ratio for SI in 1Q05 was 24.2%, compared to 20.0% in 1Q04 and 24.7% in 4Q04. The improvement in margin compared to 1Q04 was mainly due to the increase in higher-margin systems integration contracts.

Sales and marketing expenses were JPY 768 million in 1Q05, an increase of 15.8% compared to 1Q04 and an increase of 4.3% compared to 4Q04. The increase from 1Q04 is mainly due to increases in personnel and advertising expenses. The increase from 4Q04 is mainly due to an increase in personnel expenses.

General and administrative expenses were JPY 714 million in 1Q05, an increase of 15.0% compared to 1Q04 and a decrease of 10.8% compared to 4Q04. The increase from 1Q04 is mainly due to an increase in personnel expenses. The decrease from 4Q04 is mainly due to absence of write down of software licenses that we recorded in 4Q04.

Operating income

Operating income was JPY 247 million in 1Q05, compared to an operating loss of JPY 100 million in 1Q04 and an operating income of JPY 656 million in 4Q04. The increase from 1Q04 was mainly due to improved gross-margins in Connectivity, VAS and SI. The decrease from 4Q04 was mainly due to a decrease in SI revenues.

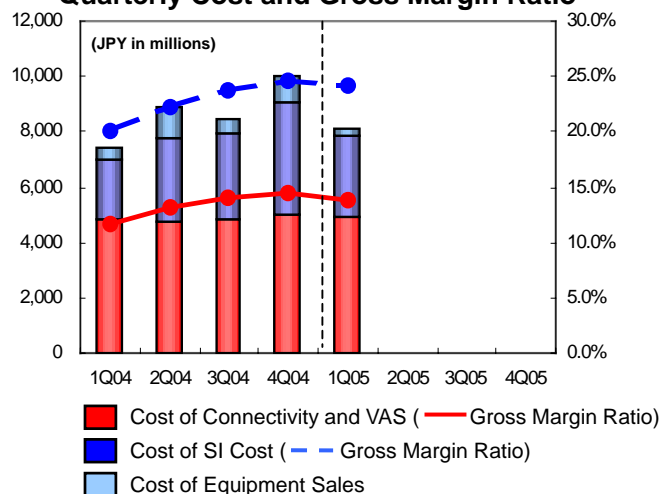
Other income (expenses) in 1Q05 was JPY 435 million, compared to other expenses of JPY 151 million in 1Q04 and other income of JPY 1,729 million in 4Q04. The increase from 1Q04 or the decrease from 4Q04 is mainly due to an increase or decrease

Cost of Revenues

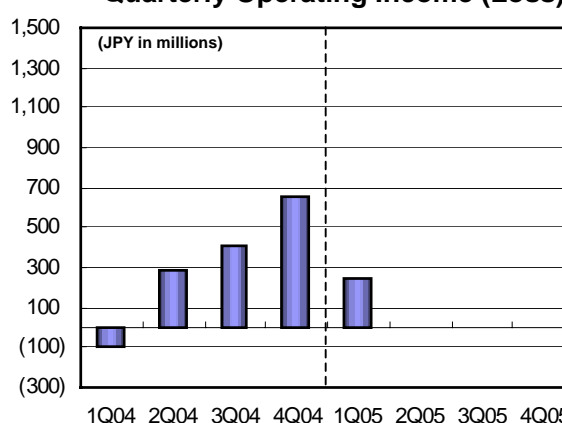
(JPY in millions)

	1Q05	1Q04	YoY % change	4Q04	QoQ % change
Total Costs:	8,118	7,443	9.1%	10,012	(18.9%)
Connectivity & VAS	4,964	4,811	3.2%	5,018	(1.1%)
SI	2,910	2,157	34.9%	4,030	(27.8%)
Equipment Sales	244	475	(48.7%)	964	(74.7%)

Quarterly Cost and Gross Margin Ratio



Quarterly Operating Income (Loss)

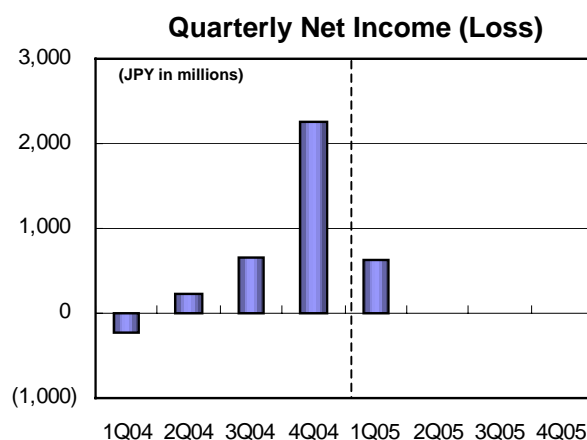


in gain from sale of available-for-sale securities. The differences to 1Q04 or 4Q04 also includes the absence of interest payments for the convertible notes due March 31, 2005.

Income tax expense for 1Q05 was JPY 38 million, compared to JPY 15 million in 1Q04 and JPY 30 million in 4Q04.

Equity in net income (loss) of equity method investees amounted to net income of JPY 3 million in 1Q05, compared to net loss of JPY 11 million in 1Q04 and net loss of JPY 37 million in 4Q04.

Net income (loss) was net income of JPY 623 million in 1Q05, compared to a net loss of JPY 238 million in 1Q04 and net income of JPY 2,256 million in 4Q04. The increase from 1Q04 or the decrease from 4Q04 is mainly due to the improvement or decrease in operating income, and an increase or decrease in gain from sale of available-for-sale securities.



1st Quarter FY2005 Business Review

Analysis by Service

Connectivity and Value-added Services

Number of Contracts for Connectivity Services

	1Q05	1Q04	4Q04
Dedicated Access Service Contracts	12,274	8,076	11,243
IP Service (Low Bandwidth: 64kbps-768kbps) ³	65	76	89
IP Service (Medium Bandwidth: 1Mbps-99Mbps) ³	637	594	660
IP Service (High Bandwidth: 100Mbps-)	131	82	114
IIJ T1 Standard and IIJ Economy ⁴	208	421	276
IIJ Data Center Connectivity Service	234	224	231
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	10,999	6,679	9,873
Dial-up Access Service Contracts	677,207	708,586	693,976
Dial-up Access Services, under IIJ Brand	66,125	73,225	68,068
Dial-up Access Services, OEM ⁵	611,082	635,361	625,908
Total Contracted Bandwidth	140.9Gbps	95.6Gbps	121.2Gbps

The total number of contracts for dedicated access services continued to increase steadily in 1Q05. In IP Services, which are mainly used for critical services in corporate headquarters, contracts for 100Mbps and higher increased significantly. The number of contacts higher than 1Gbps substantially increased to 33 in 1Q05, from 24 in the previous quarter. The number of contracts recorded for broadband services was over 10,000 and most new contracts are for multi-site connectivity. These services are provided with value-added services and systems integration.

Connectivity and VAS Revenue Breakdown and Cost

(JPY in millions)

	1Q05	1Q04	YoY % Change	4Q04	QoQ % change
Connectivity Service Revenues	3,446	3,671	(6.1%)	3,559	(3.2%)
Dedicated Access Service Revenues	2,747	2,919	(5.9%)	2,841	(3.3%)
IP Service⁶	2,166	2,279	(5.0%)	2,235	(3.1%)

³ Including IPv6 Services.

⁴ Referred to as "Limited Functionality Services" in 1Q04 for the services with local access not shared, limited on several functionality compared to IP service such as number of IP address allocated and fixed speed of 64kbps, 128kbps and 1.5Mbps.

⁵ OEM stands for Original Equipment Manufacturer.

IIJ T1 Standard and IIJ Economy	134	275	(51.2%)	171	(21.4%)
IIJ FiberAccess/F and IIJ DSL/F (Broadband Services)	447	365	22.5%	435	2.7%
Dial-up Access Service Revenues	699	752	(7.1%)	718	(2.7%)
Under IIJ Brand	466	509	(8.4%)	471	(1.2%)
OEM	233	243	(4.3%)	247	(5.6%)
VAS Revenues	1,388	1,187	16.9%	1,322	5.0%
Other Revenues	933	592	57.5%	979	(4.7%)
Total Connectivity and VAS Revenues	5,767	5,450	5.8%	5,860	(1.6%)
Cost of Connectivity and VAS	4,964	4,811	3.2%	5,018	(1.1%)
Backbone Cost (included in the cost of Connectivity and VAS)	864	985	(12.3%)	831	3.9%
Connectivity and VAS Gross Margin Ratio	13.9%	11.7%		14.4%	

VAS revenues increased reflecting an increase in revenues from data centers and other managed services, reflecting an increase in demand for various types of packaged outsource services.

Other revenues also increased steadily, mainly due to an increase in revenue from Wide-area Ethernet services in year-over-year comparison.

Backbone costs declined in 1Q05 by 12.3% compared to 1Q04 and increased by 3.9% compared to 4Q04.

Systems Integration

Systems Integration Revenue Breakdown and Cost

(JPY in millions)

	1Q05	1Q04	YoY % change	4Q04	QoQ % change
Systems Integration Revenues	3,840	2,695	42.5%	5,352	(28.2%)
Systems Integration	1,193	1,040	14.7%	2,786	(57.2%)
Outsourced Operation	2,647	1,655	60.0%	2,566	3.2%
Cost of Systems Integration	2,910	2,157	34.9%	4,030	(27.8%)
Systems Integration Gross Margin Ratio	24.2%	20.0%		24.7%	

Our SI projects are becoming bigger in scale as we include the whole stream of consulting, design, project management, implementation and operation. SI revenues in 1Q05 increased compared to 1Q04 largely due to the steady increase in monthly revenues from outsourced operations. In addition, the increase from 1Q04 reflected additional revenues from the purchase of the security system business operations of Yamatane Co. Ltd. ("Yamatane").

Equipment Sales

Equipment Sales Revenue and Cost

(JPY in millions)

	1Q05	1Q04	YoY % change	4Q04	QoQ % change
Equipment Sales Revenues	273	530	(48.5%)	1,042	(73.8%)
Cost of Equipment Sales	244	475	(48.7%)	964	(74.7%)
Equipment Sales Gross Margin Ratio	10.9%	10.4%		7.6%	

Other Financial Statistics

Other Financial Statistics

(JPY in millions)

	1Q05	1Q04	YoY % change	4Q04	QoQ % change
Adjusted EBITDA⁷	1,261	884	42.6%	1,698	(25.8%)
CAPEX, including capital leases⁸	533	1,300	(59.0%)	724	(26.3%)

⁶ IP Service revenues includes revenues from Data Center Connectivity Service.

⁷ Please refer to the Reconciliation of Non-GAAP Financial Measures on the next page.

Depreciation and amortization ⁹	1,014	1,004	1.0%	1,061	(4.4%)
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Major Topics

ADS ratio change and stock split:

In August 2005, IIJ announced that its board of directors approved a change in the ratio of its American Depositary Shares ("ADSs") to the shares of common stock of IIJ ("Shares") from 1 ADS = 1 / 2,000 of a Share to 1 ADS = 1 / 400 of a Share and a stock split (1 to 5) of Shares. The ratio change and stock split will not affect the total number of ADSs in issue and are not expected to affect the ADS trading price on the NASDAQ market, because: (1) the ADS ratio change will be reciprocal to the stock split and (2) the effective date for the ratio change will be the payable date for the stock split. In connection with the ratio change and stock split, the ADS depository facility at The Bank of New York will be temporarily closed for deposits of Shares for delivery of American Depositary Receipts ("ADRs") representing the ADSs and withdrawal of Shares upon surrender of ADRs from and including Friday, August 26, 2005, to, and including, the payable date for the stock split, Tuesday, October 11, 2005. The holders of IIJ ADSs will be able to trade its ADSs on the NASDAQ market as usual during the period in which the depository facility is closed for deposits and withdrawals of Shares.

IIJ and IIJ Technology to form alliance with HP Japan to deliver RFID platform:

In August 2005, IIJ, IIJ Technology and Hewlett-Packard Japan, Ltd. announced that they have formed a business alliance for the commercialization of a radio frequency identification ("RFID") platform using networks based on international RFID standards called the EPCglobal Network™. Through this alliance, the three companies will offer global real-time supply chain management ("SCM"), which can be put to practical use for intercompany and international logistics.

Reconciliation of Non-GAAP Financial Measures

The following table summarizes the reconciliation of adjusted EBITDA to net income according to the consolidated statements of operations that are prepared in accordance with accounting principles generally accepted in the U.S. and presented in Appendix 1:

Adjusted EBITDA		(JPY in millions)		
	1Q05	1Q04	4Q04	
Adjusted EBITDA	1,261	884	1,698	
Depreciation and Amortization¹⁰	(1,014)	(984)	(1,042)	
Operating Income	247	(100)	656	
Other Income (Expenses)	435	(151)	1,729	
Income Tax Expense	38	15	30	
Minority Interests in (Earnings) Losses of Subsidiaries	(24)	39	(62)	
Equity in Net Income (Loss) of Equity Method Investees	3	(11)	(37)	
Net Income (Loss)	623	(238)	2,256	

The following table summarizes the reconciliation of capital expenditures to the purchase of property and equipment according to the consolidated statements of cash flows that are prepared and presented in accordance with accounting principles generally accepted in the U.S. in Appendix 3:

CAPEX		(JPY in millions)		
	1Q05	1Q04	4Q04	
Capital Expenditures	533	1,300	724	
Acquisition of Assets by Entering into Capital Leases	320	977	627	
Purchase of Property and Equipment	213	323	97	

⁸ Please refer to the Reconciliation of Non-GAAP Financial Measures on the next page.

⁹ Depreciation and amortization includes amortization of issuance cost of convertible notes and intangible assets.

¹⁰ Depreciation and amortization excludes amortization of issuance cost of convertible notes that was included in other expenses.

Target

IJJ maintains its target for FY2005. As announced on May 27, 2005, the targets for consolidated financial results for FY2005 are as follows:

Revenue - JPY 46,330 million (an increase of 11.1% compared to FY2004)

Operating income - JPY 2,320 million (an increase of 85.9% compared to FY2004)

Net income - JPY 3,700 million (an increase of 27.3% compared to FY2004)

Management Message/Webcast

On August 13, 2005, IJJ will present its management message and the Company's results and outlook by webcast. For details, please access the following URL: <http://www.ijj.ad.jp/en/IR/>

About Internet Initiative Japan Inc.

Founded in 1992, Internet Initiative Japan Inc. (IJJ, NASDAQ: IJJI) is one of Japan's leading Internet-access and comprehensive network solutions providers. The company has built one of the largest Internet backbone networks in Japan, and between Japan and the United States. IJJ and its group of companies provide total network solutions that mainly cater to high-end corporate customers. The company's services include high-quality systems integration and security services, Internet access, hosting/housing, and content design.

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Statements made in this press release regarding IJJ's or management's intentions, beliefs, expectations, or predictions for the future are forward-looking statements that are based on IJJ's and managements' current expectations, assumptions, estimates and projections about its business and the industry. These forward-looking statements, such as statements regarding FY2005 revenues and operating and net profitability, are subject to various risks, uncertainties and other factors that could cause IJJ's actual results to differ materially from those contained in any forward-looking statement. These risks, uncertainties and other factors include: IJJ's ability to achieve or sustain profitability in the near future; IJJ's ability to compete effectively against competitors which have greater financial, marketing and other resources; IJJ's ability to attract and retain qualified personnel; and other risks referred to in IJJ's annual report on Form 20-F filed with the United States Securities and Exchange Commission ("SEC") on August 3, 2005, and from time to time in other filings with the SEC available at www.sec.gov.

Tables to follow

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED STATEMENTS OF OPERATIONS(UNAUDITED)

For the Three Months Ended Jun 30, 2005, Jun 30, 2004 and Mar 31, 2005

(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD) Except for Per Share and ADS Data)(1)

	Year-over-year Comparison						Sequential Comparison		
	Jun 30, 2005			Jun 30, 2004			Mar 31, 2005		
	USD (1)	JPY	% of Total Revenues	JPY	% of Total Revenues	YOY Chg %	JPY	% of Total Revenues	QOQ Chg %
Revenues:									
Connectivity and value-added services:									
Dedicated access services	24,767	2,746,900	27.8%	2,918,488	33.6%	(5.9%)	2,840,903	23.2%	(3.3%)
Dial-up access services	6,299	698,670	7.1	751,933	8.7	(7.1)	718,285	5.8	(2.7)
Value-added services	12,514	1,387,893	14.1	1,186,837	13.7	16.9	1,321,816	10.8	5.0
Other	8,413	933,120	9.4	592,390	6.8	57.5	978,940	8.0	(4.7)
Total connectivity and value-added services	51,993	5,766,583	58.4	5,449,648	62.8	5.8	5,859,944	47.8	(1.6)
Systems integration revenues	34,623	3,840,075	38.9	2,694,638	31.1	42.5	5,351,865	43.7	(28.2)
Equipment sales	2,466	273,438	2.7	530,621	6.1	(48.5)	1,042,540	8.5	(73.8)
Total revenues	89,082	9,880,096	100.0	8,674,907	100.0	13.9	12,254,349	100.0	(19.4)
Costs and expenses:									
Cost of connectivity and value-added services	44,756	4,963,835	50.2	4,811,341	55.5	3.2	5,018,522	40.9	(1.1)
Cost of systems integration revenues	26,240	2,910,262	29.5	2,156,620	24.8	34.9	4,030,274	32.9	(27.8)
Cost of equipment sales	2,197	243,699	2.5	475,466	5.5	(48.7)	963,665	7.9	(74.7)
Total costs	73,193	8,117,796	82.2	7,443,427	85.8	9.1	10,012,461	81.7	(18.9)
Sales and marketing	6,923	767,801	7.8	662,950	7.6	15.8	736,219	6.0	4.3
General and administrative	6,437	713,917	7.2	620,651	7.2	15.0	799,929	6.5	(10.8)
Research and development	305	33,904	0.3	48,368	0.6	(29.9)	49,968	0.4	(32.1)
Total costs and expenses	86,858	9,633,418	97.5	8,775,396	101.2	9.8	11,598,577	94.6	(16.9)
Operating income (loss)	2,224	246,678	2.5	(100,489)	(1.2)	(345.5)	655,772	5.4	(62.4)
Other income (expenses)	3,924	435,233	4.4	(150,700)	(1.7)	(388.8)	1,729,122	14.1	(74.8)
Income (loss) before income tax expense, minority interests and equity in net income (loss) of equity method investees	6,148	681,911	6.9	(251,189)	(2.9)	(371.5)	2,384,894	19.5	(71.4)
Income tax expense	344	38,111	0.4	15,089	0.2	152.6	29,839	0.3	27.7
Minority interests in (earnings) losses of subsidiaries	(215)	(23,855)	(0.2)	39,184	0.5	(160.9)	(62,468)	(0.5)	(61.8)
Equity in net income (loss) of equity method investees	25	2,729	0.0	(10,995)	(0.1)	(124.8)	(36,966)	(0.3)	(107.4)
Net income (loss)	5,614	622,674	6.3%	(238,089)	(2.7%)	(361.5%)	2,255,621	18.4%	(72.4%)
Basic And Diluted Net Income (Loss) Per Share		16,254		(6,214)			58,875		
Basic And Diluted Net Income (Loss) Per ADS Equivalent		8.13		(3.10)			29.44		
Weighted Average Number of Shares		38,309		38,312			38,312		
Weighted Average Number of ADS Equivalents		76,618,779		76,623,702			76,623,702		

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Jun 30, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 110.91 = \$1, the approximate rate of exchange on Jun 30, 2005.

INTERNET INITIATIVE JAPAN INC.
CONSOLIDATED BALANCE SHEETS(UNAUDITED)

Appendix 2

As of Jun 30, 2005, Jun 30, 2004 and Mar 31, 2005
(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) (1)

	Jun 30, 2005			Jun 30, 2004		Mar 31, 2005	
	USD (1)	JPY	%	JPY	%	JPY	%
ASSETS							
Current Assets:							
Cash and cash equivalents	46,041	5,106,388	15.1%	10,627,203	25.3%	5,286,477	14.2%
Short-term investments	2,747	304,628	0.9	-	-	-	-
Accounts receivable, net	52,230	5,792,808	17.2	5,377,230	12.8	7,407,439	20.0
Inventories	2,392	265,286	0.8	413,477	1.0	140,096	0.4
Prepaid expenses	11,391	1,263,409	3.8	932,097	2.2	604,935	1.6
Other current assets	728	80,797	0.2	457,325	1.1	108,228	0.3
Total current assets	115,529	12,813,316	38.0	17,807,332	42.4	13,547,175	36.5
Investments in and Advances to Equity Method Investees	6,105	677,035	2.0	769,363	1.8	713,607	1.9
Other Investments	71,069	7,882,229	23.4	11,919,229	28.3	9,930,781	26.8
Property and Equipment, net	82,553	9,155,981	27.1	8,567,329	20.4	9,722,366	26.2
Guarantee Deposits	18,855	2,091,237	6.2	2,059,980	4.9	2,050,665	5.5
Other Assets	10,138	1,124,441	3.3	915,548	2.2	1,151,877	3.1
Total assets	304,249	33,744,239	100.0%	42,038,781	100.0%	37,116,471	100.0%
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current Liabilities:							
Short-term borrowings	42,588	4,723,387	14.0%	5,363,001	12.8%	4,724,633	12.7%
Payable under securities loan agreement	13,799	1,530,400	4.5	-	-	1,729,520	4.7
Accounts payable	33,047	3,665,233	10.9	3,754,214	8.9	4,860,733	13.1
Accrued expenses	4,720	523,478	1.6	480,824	1.1	541,118	1.4
Other current liabilities	8,284	918,829	2.7	728,386	1.7	817,517	2.2
Long-term borrowings-current portion	28,735	3,187,023	9.4	1,549,189	3.7	2,736,056	7.4
Convertible notes	-	-	-	11,088,000	26.4	-	-
Capital lease obligations-current portion	24,513	2,718,759	8.1	2,403,477	5.7	2,774,974	7.5
Total current liabilities	155,686	17,267,109	51.2	25,367,091	60.3	18,184,551	49.0
Long-term Borrowings	7,847	870,342	2.6	2,270,366	5.4	1,529,963	4.1
Capital Lease Obligations-Noncurrent	35,618	3,950,359	11.7	3,123,878	7.4	4,339,028	11.7
Accrued Retirement and Pension Costs	1,528	169,460	0.5	89,037	0.2	143,346	0.4
Other Noncurrent Liabilities	2,225	246,818	0.7	233,046	0.6	275,533	0.7
Total liabilities	202,904	22,504,088	66.7	31,083,418	73.9	24,472,421	65.9
Minority Interest	9,496	1,053,212	3.1	901,088	2.2	1,028,977	2.8
Shareholders' Equity:							
Common stock	124,113	13,765,372	40.8	13,765,372	32.8	13,765,372	37.1
Additional paid-in capital	213,125	23,637,628	70.0	23,637,628	56.2	23,637,628	63.7
Accumulated deficit	(304,854)	(33,811,378)	(100.2)	(37,578,410)	(89.4)	(34,434,052)	(92.8)
Accumulated other comprehensive income	60,225	6,679,555	19.8	10,273,685	24.4	8,690,125	23.4
Treasury stock	(760)	(84,238)	(0.2)	(44,000)	(0.1)	(44,000)	(0.1)
Total shareholders' equity	91,849	10,186,939	30.2	10,054,275	23.9	11,615,073	31.3
Total liabilities and shareholders' equity	304,249	33,744,239	100.0%	42,038,781	100.0%	37,116,471	100.0%

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to Jun 30, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY 110.91 = \$1, the approximate rate of exchange on Jun 30, 2005.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the Three Months Ended Jun 30, 2005, Jun 30, 2004 and Mar 31, 2004

(Expressed in Thousands of Japanese Yen (JPY) and U.S. Dollars (USD)) (1)

	Jun 30, 2005		Jun 30, 2004	Mar 31, 2005
	USD (1)	JPY	JPY	JPY
Operating Activities:				
Net income (loss)	5,614	622,674	(238,089)	2,255,621
Depreciation and amortization	9,140	1,013,745	1,004,170	1,060,944
Provision for (reversal of) doubtful accounts	(48)	(5,339)	(12,936)	36,204
Equity in net (income) loss of equity method investees	(25)	(2,729)	10,995	36,966
Minority interests in earnings (losses) of subsidiaries	215	23,855	(39,184)	62,468
Foreign exchange gains	(56)	(6,278)	(7,585)	(8,641)
Loss on retirement of convertible notes	-	-	5,195	-
Net losses (gains) on other investments	(4,407)	(488,758)	2,749	(1,816,676)
Decrease (increase) in accounts receivable	14,619	1,621,419	3,627,399	(1,206,074)
Increase (decrease) in accounts payable	(10,215)	(1,132,992)	(3,094,772)	1,205,665
Decrease (increase) in inventories	(1,129)	(125,190)	24,958	221,788
Deferred income taxes	165	18,343	-	(11,656)
Other	(4,609)	(511,252)	(255,036)	704,443
Net cash provided by operating activities	9,264	1,027,498	1,027,864	2,541,052
Investing Activities:				
Purchase of property and equipment	(1,925)	(213,485)	(323,210)	(96,542)
Purchase of subsidiary stock	-	-	-	(50,000)
Proceeds from sales of other investments	4,639	514,460	91,286	2,008,650
Purchase of short-term and other investments	(2,699)	(299,311)	(2,290)	(2,339)
Refund (payment) of guarantee deposits-net	(354)	(39,210)	14,528	(3,330)
Other	(49)	(5,450)	(4,851)	(9,495)
Net cash provided by (used in) investing activities	(388)	(42,996)	(224,537)	1,846,944
Financing Activities:				
Repayments of long-term borrowings	(1,881)	(208,654)	(36,710)	(308,414)
Proceeds from securities loan agreement	-	-	-	1,729,520
Repayments of securities loan agreement	(1,796)	(199,120)	-	(722,800)
Redemption of convertible notes	-	-	(745,488)	(11,088,000)
Principal payments under capital leases	(6,914)	(766,807)	(669,047)	(753,177)
Net decrease in short-term borrowings	(11)	(1,246)	(1,201,093)	(101,211)
Proceeds from issuance of common stock of a subsidiary	-	-	188,632	-
Net cash used in financing activities	(10,602)	(1,175,827)	(2,463,706)	(11,244,082)
Effect of Exchange Rate Changes on Cash	101	11,236	3,343	(16,227)
Net Decrease in Cash and Cash Equivalents	(1,624)	(180,089)	(1,657,036)	(6,872,313)
Cash and Cash Equivalents, Beginning of Period	47,665	5,286,477	12,284,239	12,158,790
Cash and Cash Equivalents, End of Period	46,041	5,106,388	10,627,203	5,286,477

Note (1): The translations of Japanese yen amounts into US dollar amounts with respect to the three months ended Jun 30, 2005 are included solely for the convenience of readers outside Japan and have been made at the rate of JPY110.91 = \$1, the approximate rate of exchange on Jun 30, 2005.